

China's WTO Accession; America's Choice

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Washington, DC

March 6, 2000

Thank you all very much. It's a pleasure to be back before the NACo; I very much enjoyed my last visit with NACo's plenary a couple of years ago. I would like to begin by acknowledging those county officials who have played a leading role on international trade issues, most recently by participating in the Global Centers Forum this past December, organized jointly by NACo and the U.S. Conference of Mayors. The purpose of the forum was to highlight the importance of metropolitan areas as engines of economic growth through trade and to share counties' and cities' strategies for success, and many NACo members participated.

Let me give special recognition to NACo President C. Vernon Gray, President-elect Jane Hague, Executive Wayne Curry of NACo's Large Urban County Caucus, and King County Executive Ron Sims for their leadership on this. Ron also serves on USTR's Intergovernmental Policy Advisory Committee on trade, a federal trade committee which advises myself and the President on trade issues. I also would like to acknowledge other friends at NACo, such as Past President Randy Johnson of Hennepin County, and Executive Director Larry Naake.

It is my great pleasure to be here with you today, because as county government leaders you live and work with the Americans, on the job and on the farm, shaping today's international economy; and you see first-hand the potential of trade policy to create new opportunities and strengthen guarantees of fairness for Americans.

USTR INTRODUCTION

Let me begin with a brief introduction of my job and the agency I head, and then turn to our central challenge for the year ahead: China's decision to join the World Trade Organization.

As U.S. Trade Representative, I lead one of the smallest agencies in government. We have 178 full-time employees and a budget of \$26 million; which is in fact not much more than the Defense Department spends on stationery every year. With this we address \$2 trillion in U.S. trade with the world. We negotiate, monitor and enforce hundreds of agreements; and with help and advice from the business, agriculture, and labor communities, state and local government, non-governmental organizations, Congress, and the interested public, we develop the American agenda for the future.

Our work rests on a philosophical belief in open and fair competition, together with strong standards to ensure protection for our consumers, workers and environment. And at home we are

committed to an open market which increases competition and choice; overseas, we create opportunity for American businesses, working people and farmers as we remove trade barriers, cut foreign subsidies and fight unfair trade practices.

Under President Clinton, these principles have helped us negotiate nearly 300 separate trade agreements, including five of truly historic importance: the North American Free Trade Agreement, which cemented our strategic relationship with our neighbors Canada and Mexico; the Uruguay Round, which created the World Trade Organization; and three multilateral agreements on Information Technology, Basic Telecommunications and Financial Services.

In part because of this, our country's exports grew to nearly a trillion dollars in goods and services last year, 55% more than in 1992. And this in turn, together with strengthened support for education and fiscal discipline, has played a part in the remarkable record of prosperity, job creation and economic renewal our country has built in the past decade.

2000 AGENDA

In the months ahead, we will go further. Congress is considering legislation to strengthen our trade relations with Africa and the Caribbean Basin. It will soon review the contribution our membership in the World Trade Organization has made to our economic record. And, with a comprehensive agreement to open China's markets, it will vote on permanent Normal Trade Relations with China. Let me offer you a few thoughts on each of these in turn.

1. Africa & CBI

To begin with, we are working with Congress for legislation to enhance the Caribbean Basin Initiative or CBI. For fifteen years, CBI has helped to promote growth and diversification in some of our closest neighbors; and has thus been of extraordinary value in supporting the progress Central America has made toward peace and democratization. We benefit from this as well: the Caribbean Basin was the destination for \$19 billion in American exports last year, making the region a larger market for our goods and services than countries like France or Brazil. To strengthen CBI therefore is to help the region continue a remarkable era of progress; and to further develop one of our most important trade relationships.

The Africa bill is an equally great opportunity. While at present, our trade relationship with the continent is relatively small, sub-Saharan Africa, with a population of approximately 640 million people, over 10 percent of the world's population, represents a market of great potential for the United States. In a larger sense, as so many African countries are making economic and political reforms, we have not only an opportunity but a moral obligation to give them support.

That is the background of President Clinton's broad economic initiative in Africa, combining assistance, debt relief, and trade agreements with leading reformers like South Africa, Ghana, Mozambique and most recently Nigeria. Our principal goal for this year in Africa policy is

Congressional passage of the African Growth and Opportunity Act (AGOA). This Act, which has now passed both Houses of Congress, will strengthen each part of our African trade initiative: helping African countries find new markets, strengthening our political dialogues, and encouraging investment and development in Africa.

2. WTO & Section 125

Congress is also scheduled to make a five-year review of our work in the World Trade Organization.

The WTO has had quite a bit of attention lately, so rather than give you a very detailed summary of our work, let me rather trace it back to its beginnings. The WTO's origins go back to 1948, when the United States, under President Truman, led in creation of the General Agreement on Tariffs and Trade or GATT. President Truman and Europe's democratic leaders acted with the personal experience of Depression and war. They had seen the Smoot-Hawley Act in America and similar protectionist policies overseas deepen the Depression and contribute to the political upheavals of the 1930s. And fifteen years later, they believed that by reopening world markets they could promote growth and raise living standards; and that as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work they began has continued for fifty years; and their faith in freedom, open markets and the rule of law is abundantly vindicated. Through eight Rounds of negotiations, and as 112 new members joined the 23 founders, we abandoned the closed markets of the Depression era and helped to generate unprecedented wealth and economic growth over the last five decades.

Today, the WTO system of trade rules, which succeeded the GATT in 1995, helps make sure our trading partners play by the rules; creates expanded export opportunities for working people, businesses and farmers; and enables us to gain the advantages of imports which keep down inflation, increase consumer choice and raise living standards, especially for the poorest Americans. The benefits it has brought us are clear in the remarkable record of growth, job creation and rising living standards we have built in the past seven years. In our ability to prevent a cycle of protection and retaliation in the recent financial crisis which would have done immense damage to American farmers and manufacturing exporters. And in the fact that when nations become one another's customers and investors, they gain stronger interests in prosperity and stability beyond their borders.

It would be unthinkable and catastrophic if the U.S. were to isolate itself from the global system we created. At the same time, we must continue to ensure that the rules-based system responds to legitimate and growing calls for greater openness and accountability.

ONE-WAY CONCESSIONS

And that brings me to our central policy goal for the coming year: China's WTO accession, and permanent Normal Trade Relations.

In the most basic sense, when we consider China's WTO accession and permanent Normal Trade Relations, we are facing a clear choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way trade concessions on China's part, granting the United States substantially greater market access across the spectrum of industrial goods, services and agriculture. This agreement strengthens our guarantees of fair trade. And it gives us far greater ability to enforce Chinese trade commitments. By contrast, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

One might end a discussion of the WTO accession right there. From a purely trade policy perspective, it would not be wrong to do so; but we must also think about the wider implications.

In China, we have the world's largest nation; the world's fastest-growing major economy over the past decade; a country whose future course is central to our interest in a peaceful, stable, prosperous Pacific region; and an often repressive government with which we have significant policy disagreements. And it is fair to judge the WTO accession in this light as well.

Our bilateral agreement is, first of all, in the interest of reform and liberalization in China. China's commitments go well beyond its economic reforms thus far, to address policies that date to the earliest years of the communist era. As it joins the WTO, for the first time since the 1940s China will:

- Permit foreigners and Chinese firms to import freely into China;
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and provision of services;
- Enable foreign businesses to participate in information industries such as telecommunications, including the Internet; and
- Subject its decisions in all areas covered by the WTO to impartial review, including through formal dispute settlement when necessary.

This agreement, of course, is not by itself a human rights policy. As we promote these changes, we are also sponsoring a resolution in the UN Human Rights Commission condemning China's human rights record, and sanctioning China as a "country of particular concern" under the International Religious Freedom Act.

But the agreement does represent a remarkable victory for economic reformers in China. It will give China's people more access to information, and weaken the ability of hardliners to isolate China's public from outside influences and ideas. More deeply, it reflects a judgment --

although one still not universally shared in the Chinese government -- that prosperity, security and international respect will not come from static nationalism and state power; but greater integration with the world, rising economic freedom at home, and ultimately development of the rule of law. And that is why a number of leading Chinese dissidents and Hong Kong advocates of democracy endorse WTO membership not only for its economic value, but as a foundation for broader future reforms.

WTO accession is also in America's broader strategic interest. For thirty years, American trade policy -- from the lifting of the trade embargo in 1972, to the grant of Normal Trade Relations in 1979, through our more recent agreements on intellectual property, agriculture and textiles -- has helped integrate China into the Pacific and world economies. As China's neighbors became China's customers and investors, China gained a stronger stake in regional stability and prosperity. Concurrently, it moved away from a revolutionary foreign policy to play an important and constructive role in such areas as the maintenance of peace on the Korean peninsula and the Asian financial crisis.

WTO accession will carry this much further. And so, together with our military presence and our alliances with the Asia-Pacific democracies, China's WTO accession will be a factor in favor of a more stable regional peace in the years to come.

OVERVIEW OF BILATERAL AGREEMENT

Let me now turn to the agreement itself, because as important as it may be for reform and our broader strategic interest, WTO accession must ultimately be judged on its economic merits. And here, I believe, it meets the high standards we should set.

Our bilateral agreement is comprehensive. It covers the full range of industrial goods, services, farm products and unfair trade practices; addressing the barriers that block American exports in each of these sectors. It strengthens American guarantees of fair trade. And it will be rapidly implemented and fully enforceable.

China's industrial tariffs will fall from an average of 24.6% in 1997 to 9.4% by 2005. Tariffs on information technology products fall from an average of 13% to zero by 2005; on autos from 80-100% to 25%; on wood products from 10.6% to 3.8%

Of equal importance, the agreement addresses other barriers. For example, in order to export American companies, farmers and workers need the ability to import, export and distribute goods in China -- rights now denied but which the agreement will secure for us. Thus our businesses will be able to export to China from here at home, rather than being forced to set up factories there to sell products through Chinese partners.

In agriculture, tariffs on U.S. priority products will drop from an average of 31% to 14% in January 2004. To cite a few examples, China will cut tariffs on beef from 45% to 12%; on

wine from 65% to 20%; on dairy from 50% to 12%; on peaches and almonds from 30-12%; on shrimp and crayfish from 30% to 16%. China will also expand access for bulk agricultural products such as wheat, corn, cotton, rice, soybean oil and others, through tariff-rate quotas that offer dramatic opportunities to producers of these products and permit for the first time private trade in these products. And China will agree to end import bans -- we just saw the first tangible result last week, with China's first purchase of Pacific Northwest wheat in over sixty years. And China will go on to cap and reduce trade-distorting domestic supports, eliminate export subsidies, and base its agricultural inspections on science.

In services, the agreement will open the market for distribution, financial services, telecommunications, professional, business and computer services, motion pictures, environmental services, and other industries. In fields such as distribution, telecommunication and several others, this represents the first opening to direct foreign participation since the 1950s.

And as we open these markets, we also strengthen guarantees of fair trade for our companies and working people at home. For example, we secure a ban on forced technology transfer as a condition of investment, together with elimination of other policies intended to draw jobs and technology to China, such as local content, offsets and export performance requirements. We strengthen protections for Americans against import surges from China. And we guarantee our right to use strong measures to fight unfair export practices like dumping.

All of this will be rapid. Immediately on accession to the WTO, China will begin opening its market in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years.

ENFORCEMENT

And all of this is fully enforceable. Let me expand on this for a moment.

All trade commitments require full implementation and enforcement to be meaningful in practice. Our previous successes in improving intellectual property rights and enforcing textile commitments in China demonstrate how crucial constant oversight, monitoring, and strict enforcement are in the case of China, and our trading partners in general. And with China's WTO membership, we will gain a number of advantages in enforcement we do not now enjoy.

First is the WTO dispute mechanism itself. In no previous agreement has China agreed to subject its decisions to impartial review, judgment and ultimately sanctions if necessary.

Second, of course, is our continued right to use the full range of American trade laws, including Section 301, Special 301, and our countervailing duty and anti-dumping laws.

Third, we gain substantial new leverage by creating the anti-import surge safeguard, as well as guaranteeing our right to use strengthened antidumping methodologies. These features of

the accession will significantly strengthen our ability to ensure fair trading practices.

Fourth, we strengthen our enforcement capabilities through the multilateral nature of the WTO. The accession, to begin with, will create a multilateral review mechanism to monitor all of China's implementation. And as the commitments come into effect, China will be subject to enforcement by all 135 WTO members, significantly diminishing China's ability to play its trading partners off against one another. In previous disputes over compliance with agreements, notably those over intellectual property, we had to act alone. With China in the WTO, we will work with 134 other members, many of whom will be concerned about the same issues we raise and all of whom will share our interest in China's full implementation of its commitments.

Fifth, agreements with China are best enforced when China's obligations are concrete, specific, and open to monitoring. Our bilateral agreement thus has highly specific commitments in all areas, clear time-tables for implementation, and firm end-dates for full compliance. These allow us carefully to monitor compliance and present clear evidence of failure to comply.

Sixth, of course, enforcement of this agreement or any other depends on U.S. commitment. We are already preparing for this through President Clinton's budget request for new enforcement and compliance resources at USTR, the Commerce Department, USDA and other agencies with enforcement responsibility. This will give us the resources for the largest monitoring and enforcement effort for any agreement ever, covering China's obligations in the WTO and also import administration issues such as dumping and countervailing duties.

Last, under WTO rules, the U.S. retains the right to exclude products made from prison labor, and to withdraw benefits in a national security emergency.

PERMANENT NTR

By contrast to these one-way concessions, we simply agree to continue our present policies. As China enters the WTO, we make no changes in our market access policies. We change no laws controlling the export of sensitive technology, and likewise amend none of our trade laws. Our one obligation is this: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including comprehensive market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China for 20 years; which Congress has reviewed every year and found to be in our fundamental national interest. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits of each other's markets. Were Congress not to grant permanent NTR, our competitors -- Japanese automakers, Argentine ranchers, Canadian wheat growers, European high-tech firms -- will reap these benefits but American farmers and businesses may well be left behind.

BENEFITS FOR AMERICANS

If we have the wisdom and confidence to make the right choice, in a very short time those of you with friends and constituents on the factory floor will see export opportunities and strengthened guarantees of fair trade for manufacturing, from steel to autos, agricultural equipment, wood products, and home appliances.

Those of you who represent university towns and high-tech centers will see new opportunities for semiconductors, software, pharmaceuticals, chemicals and computers.

And representatives of rural districts will see new markets for your neighbors on farms and ranches, in commodities from citrus to wheat, specialty products, beef, pork, cotton, soybeans, rice, dairy and much more.

CONCLUSION

From the perspective of trade policy, then, this choice is absolutely clear. China offers a set of one-way, enforceable trade concessions. In return, we are asked only to confirm the normal trade status we already grant to China; and if we do not, we run a substantial risk of permanently disadvantaging hundreds of American industries and their American workers.

At the same time, WTO accession will mean deeper and swifter reform within China, strengthening the rule of law and offering new opportunities and hope for a better life to hundreds of millions of Chinese.

But most important of all, it can help us build a relationship with the world's largest nation which may have moments of tension, but in which we also find common ground and strengthen the hopes of the next generation for peace.

That is the opportunity before us. These are the stakes. And that is why I ask for NACo's active support as we pursue permanent Normal Trade Relations status for China on the basis of this historic agreement.